HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Kingston CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2009

Table of Contents

1 New Home Market
2 Resale Market
3 Economic Overview
6 Forecast Summary

New Home Market

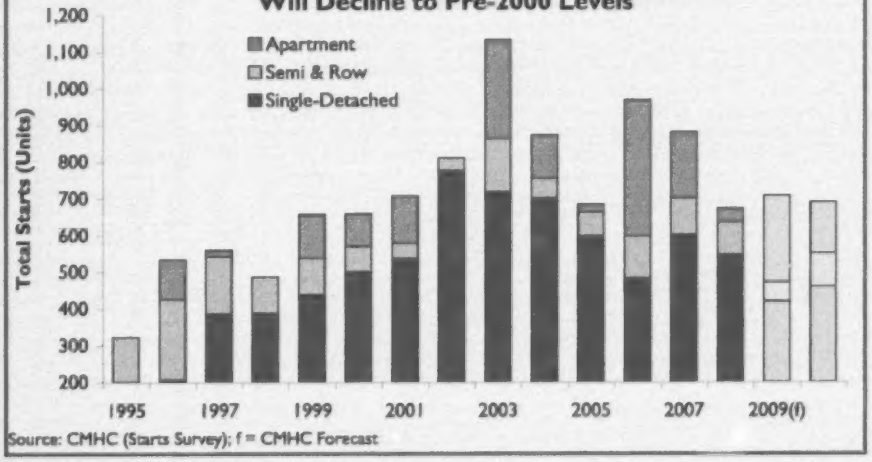
Kingston's New Home Market Will Post Modest Growth in 2009

After two years of sharp declines, and coming off from a decade of annual housing starts largely above demographic needs, new housing construction is set to stabilize in 2009. Amid emerging positive signs in both the economic and financial fronts, total residential construction in the Kingston Census Metropolitan Area (CMA) will rise by 5.2 per cent this year, with 707 new starts.

In addition to the boost to homeownership demand due to low interest rates, the prospects for increased spill-over demand from a recovering resale market will likely result in a faster year-over-year pace

Figure 1

Single-Detached Housing Starts Will Decline to Pre-2000 Levels



Source: CMHC (Starts Survey); f = CMHC Forecast

[1] The forecasts included in this document are based on information available as of October 1, 2009.

SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at www.cmhc.ca/housingmarketinformation. View, print, download or subscribe to get market information e-mailed to you on the day it is released. CMHC's electronic suite of national standardized products is available for free.

of starts during the first half of 2010. As a result, total starts next year will reach 690 units for a slight 2.4 per cent decrease, thus stabilizing construction activity at a pace more in line with household formation.

Factors Leading to Optimism in New Home Demand

Coming off from a historically challenging economic environment, the short-term forecast for Kingston's residential construction industry remains for the most part optimistic. The substantial monetary easing and fiscal stimulus measures in Canada's Economic Action Plan will improve economic fundamentals. This will renew household's appetite for big-ticket items in the face of low interest rates.

While spill-over demand from the resale into the new home market typically takes time to fully materialize, Kingston's new home market looks ripe for a modest recovery. First, new listings for resale have declined substantially from last year, thus lowering supply competition. Second, the level of unabsorbed new home inventories has returned below the long-term average. Finally, the year-to-date pipeline of properties under construction is substantially lower than for the same period last year, which means that there are resources available for future projects.

Single-Detached Starts Poised for Modest Recovery in 2010

Although total residential construction activity will hold relatively well this year, new starts of single-detached homes are forecast to decline by 23 per cent to 420 units. The expected decline has for the most part already taken place, largely as a result of household substitution in favour of more affordable housing choices in the face of weaker employment conditions earlier this year. Single-detached starts in 2009 will therefore return to pre-2000 levels and finish slightly below the long-term average.

As employment conditions and labour income recover during the second half of 2009 and into 2010, demand for new single-detached homes is expected to rise by 9.5 per cent to 460 new starts. Activity in this segment is crucial as it not only constitutes a good barometer for the overall health of the construction industry, but is also a reflection of the broader economic fundamentals driving homeownership demand.

Healthy Growth in New Single-Detached Home Prices

After two consecutive years of declines, the average price for new single-detached homes will recover both this year and next. The resurgence in homeownership demand has put substantial upward pressure on new home prices so far this year, and will end up driving the average price to $271,500, up 5 per cent from 2008. Next year, the introduction of the Harmonized Sales Tax on new homes will have a relatively lower impact on Kingston compared to other less affordable centers. The steadily improving employment conditions will keep demand for new homes at a healthy level, driving prices to rise by 3.5 per cent to reach a record-high average of $281,000.

Apartments Leading Rebound in Higher-Density Starts in 2009

After only 37 apartment starts last year, and a substantial tightening of rental market conditions, rental apartment construction will lead the rebound in 2009 with 235 new units. Although low mortgage rates will keep fuelling homeownership demand well into 2010, the surge in apartment starts will come as a supply response to last year's sharp tightening in rental apartment vacancy rates. Next year, apartment construction will remain active, trending down closer to the historical average with 140 new units.

This year will also see the addition of 12 new semi-detached homes and 40 townhomes. Even as the rise in homeownership demand will lead to a recovery in single-detached homes starts in 2010, many households will still favour more affordable, higher-density properties. Consequently, new starts of both semi-detached homes and townhomes will rise next year to 40 and 50 units, respectively.

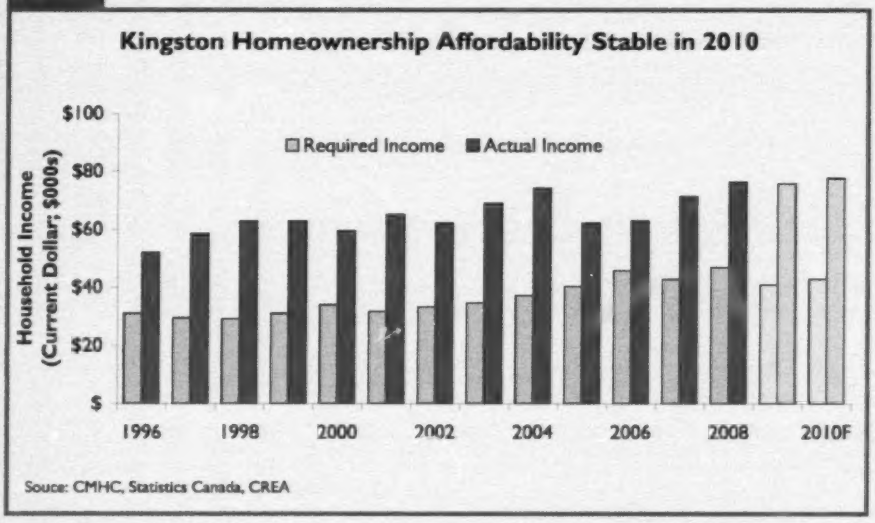
Resale Market

Moderate Recovery Ahead for Kingston's Resale Housing Market

Kingston's relative resilience to broader economic shocks has been evidenced once again after being among the least affected major Ontario centers. Nevertheless, and in contrast to recently buoyant conditions in other more active markets, housing demand in Kingston has so far been modest and is expected to finish this year 7.3 per cent below sales in 2008, with 3,220 transactions.

Although relatively resilient Kingston's labour market performance has slowed down. As a result, any remaining pent-up demand from early 2009 is being depleted at a slower rate. As employment conditions

Figure 2



recover in 2010 and interest rates remain low, pent-up demand will likely be more spread out in the following quarters, allowing for a smoother path to stabilization. Total sales in 2010 are therefore forecast to post a modest 0.9 per cent growth with 3,250 transactions. Next year will therefore be the second year in a row with sales below the current decade's average.

Average Resale Price Growth to Slow but Remain Positive

While prices have increased considerably during this year's home-buying season, this has been for the most part the result of a rapid decline in the supply of new listings, which is forecast to end this year 12.8 per cent lower than in 2008 at 6,350 units listed. Nevertheless, after more than a year-long declining trend in housing supply, the current trend in price growth will eventually encourage stabilization in the number of homes listed for sale going into 2010. Total new listings are therefore expected to post a mild 1.6 per cent rise to 6,450 units listed.

The prevailing resale market trends imply that the bargaining power between buyers and sellers will remain largely balanced throughout the remaining of 2009. In the midst of recovering employment conditions, the prospects of historic low mortgage rates into next year will continue to bring transactions forward in time. Consequently, after seven years of fast growth, price pressures will moderate but stay positive in 2009. The average price for an existing home is therefore forecast to grow by 2.7 per cent to reach an all-time high of $241,500.

Balanced Market Conditions Set to Prevail Throughout 2010

Next year will be characterized by a gradual improvement in labour market conditions and only modest increases in mortgage rates. The steady return to health in the local economic environment will therefore allow for more balanced conditions to prevail throughout 2010, leading the average resale price to grow at a pace of 2.1 per cent to reach a new high of $246,500.

Economic Overview

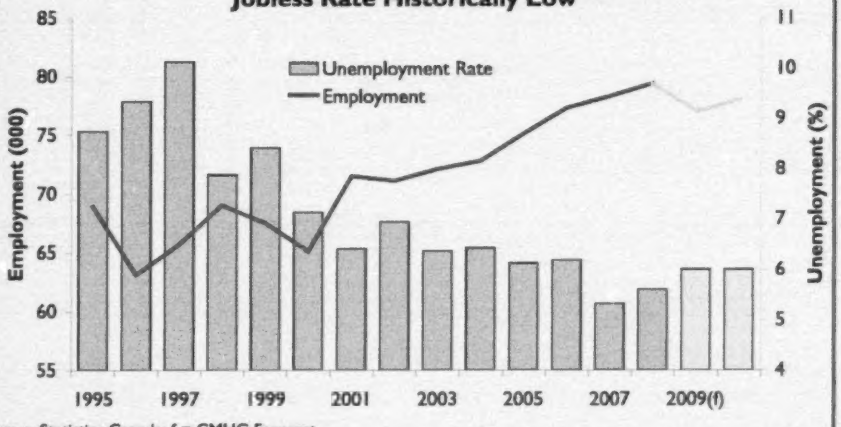
Labour Market Recovery in Kingston Already Under Way

Kingston's labour market has improved considerably ever since the second quarter of this year and has left behind the largest succession of monthly job losses of this decade. The positive monthly growth in both employment and labour force achieved as of August reinforces the prospects of a moderate but sustained recovery in late 2009. While

Figure 3

Figure 4

Kingston's Recovering Labour Market Will Keep the Jobless Rate Historically Low



Source: Statistics Canada; f = CMHC Forecast

the likelihood of observing job gains for the remaining months of 2009 has greatly increased, the long job-loss streak so far this year will prove largely dominant. Accordingly, the average employment level for 2009 is forecast to decline to 77,000, for a loss of 2,400 jobs compared to last year's numbers. Similarly, expect the labour force to regain some lost ground and finish the year just 2.6 per cent below the level in 2008.

The relatively sharper decline in employment demand compared to labour supply will result in the annual unemployment rate to rise to 6 per cent, up from 5.6 in 2008. In spite of this, given the varied labour market performances across Ontario centers, Kingston's outlook remains comparatively resilient. Supporting this resilience is the recovery of the average weekly earnings for the third month in a row and is expected to finish the year only 0.8 per cent below last year's level. Consequently, total labour income has clearly turned the corner and will be increasingly supportive of housing demand going into 2010.

Services and Health Care Sectors to Lead in Job Gains

Among the major contributors to the turnaround in employment conditions, the services and health care sectors and are expected to lead in job gains for the remaining of 2009. The manufacturing sector has stabilized and is expected to recover gradually going into next year along with the broader Ontario trend. Similarly, after a series of sharp cuts, the public administration sector is in re-hiring mode and will contribute to the labour market recovery.

Most Labour Market Gains Will Materialize During 2010

While Kingston's labour market recovery is clearly already under way, more solid and sustained job gains will be observed during 2010. As is typical during recessions, employers are likely to be reticent to re-hire unless they are confident that production and consumer demand will be robust. This growing prospect of an economic recovery, will result in an average annual gain of 1,100 jobs by the end of next year, up 1.4 per cent.

The improvement in household expectations of an imminent economic recovery will bring a growing pool of previously discouraged job-seekers back to the labour market. Therefore, in 2010 the size of the labour force is forecast to rise by 1.5 per cent. Due to the emerging expectations of particularly strong economic growth in Canada for the second half of 2009, these job-seekers will be increasingly able to find jobs next year. The annual unemployment rate will consequently remain flat at 6 per cent in 2010.

This recovery in employment conditions in 2010 will in turn bring back upward salary pressures, leading to a 2.3 per cent growth in the average weekly labour earnings. Therefore, while housing affordability in 2009 improved thanks to the slowdown in price growth, affordability in 2010 will be further supported by the return of positive labour income growth.

Kingston's Migration Outlook Remains Promising

Since households tend to be attracted to cities offering better employment opportunities, Kingston's migration outlook looks very promising. Kingston's economy, although affected by the downturn, can still boast one of the lowest unemployment rates in Ontario and even throughout Canada. In addition, the unemployment rate gap is forecast to widen and remain historically high at least until the end of 2010. With average labour earnings at comparable levels with the provincial

Figure 5

Source: Bank of Canada, CMHC Forecast

and national averages, Kingston's vibrant economy and labour market performance will attract 600 new immigrants in 2009 and 720 in 2010.

One important challenge facing Kingston's migration outlook has to do with retention, especially when it comes to newly graduated students. While a booming economy tends to draw students out of the classroom and into the workforce, periods of economic slowdown tend to encourage college and university enrolment as the future workforce sets to improve its employment prospects. This way, Kingston's relatively healthier labour market outlook will give current and future graduates incentives to stay in the City after graduation, having, as a result, significant impacts on future migration levels.

Mortgage Rate Outlook

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Forecast Summary Kingston CMA Fall 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	3,517	3,725	3,473	3,220	-7.3	3,250	0.9
MLS® New Listings	6,314	6,716	7,281	6,350	-12.8	6,450	1.6
MLS® Average Price ($)	212,157	222,300	235,047	241,500	2.7	246,500	2.1
New Home Market							
Starts:							
Single-Detached	481	600	546	420	-23.1	460	9.5
Multiples	487	280	126	287	127.8	230	-19.9
Semi-Detached	28	16	48	12	-75.0	40	**
Row/Townhouse	88	85	41	40	-2.4	50	25.0
Apartments	371	179	37	235	**	140	-40.4
Starts - Total	968	880	672	707	5.2	690	-2.4
Average Price ($):							
Single-Detached	274,964	266,145	258,693	271,500	5.0	281,000	3.5
Semi-Detached	195,238	192,438	206,679		n/a		n/a
Median Price ($):							
Single-Detached	274,000	260,000	254,900	264,000	3.6	273,000	3.4
Semi-Detached	192,000	190,500	199,750		n/a		n/a
New Housing Price Index (% chg) (Ont.)	3.7	2.6	3.5		-		-
Rental Market							
October Vacancy Rate (%)	2.1	3.2	1.3	1.1	-0.2	1.9	0.8
Two-bedroom Average Rent (October) ($)	841	856	880	905	2.8	930	2.8
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-2.67	3.83	-0.20
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-1.51	5.75	0.20
Annual Employment Level	77,300	78,300	79,400	77,000	-3.0	78,100	1.4
Employment Growth (%)	2.9	1.3	1.4	-3.0	-	1.4	-
Unemployment rate (%)	6.2	5.3	5.6	6.0	0.4	6.0	0.0
Net Migration [1]	72	175	461	600	30.2	720	20.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2009 and 2010 migration numbers are forecasts

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 60 years.

Together with other housing stakeholders, we help ensure that the Canadian housing system remains one of the best in the world. We are committed to helping Canadians access a wide choice of quality, environmentally sustainable and affordable homes – homes that will continue to create vibrant and healthy communities and cities across the country.

For more information, visit our website at www.cmhc.ca

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.
Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/housingmarketinformation

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to priced, printed editions of MAC publications, call 1-800-668-2642.

©2009 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

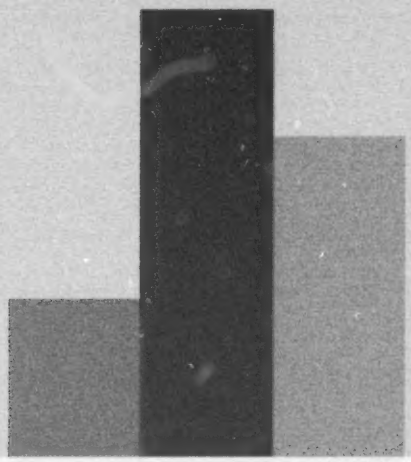
Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please contact: the Canadian Housing Information Centre (CHIC) at mailto:chic@cmhc.gc.ca; 613-748-2367 or 1-800-668-2642.

For permission, please provide CHIC with the following information:
Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

Housing market intelligence you can count on



FREE REPORTS AVAILABLE ON-LINE

- Canadian Housing Statistics
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Renovation and Home Purchase Report
- Rental Market Provincial Highlight Reports *Now semi-annual!*
- Rental Market Reports, Major Centres
- Rental Market Statistics *Now semi-annual!*
- Residential Construction Digest, Prairie Centres
- Seniors' Housing Reports
- Seniors' Housing Reports - Supplementary Tables, Regional

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

CMHC's Market Analysis Centre e-reports provide a wealth of detailed local, provincial, regional and national market information.

- **Forecasts and Analysis –** Future-oriented information about local, regional and national housing trends.
- **Statistics and Data –** Information on current housing market activities — starts, rents, vacancy rates and much more.

Discover Affordable Housing Solutions

CMHC's Affordable Housing Centre works with the private sector and industry professionals to develop affordable housing solutions in communities across Canada. Learn more about our programs, successful projects, or contact an expert.

65450_2009_B02